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New countries with new problems

George D. Bailey

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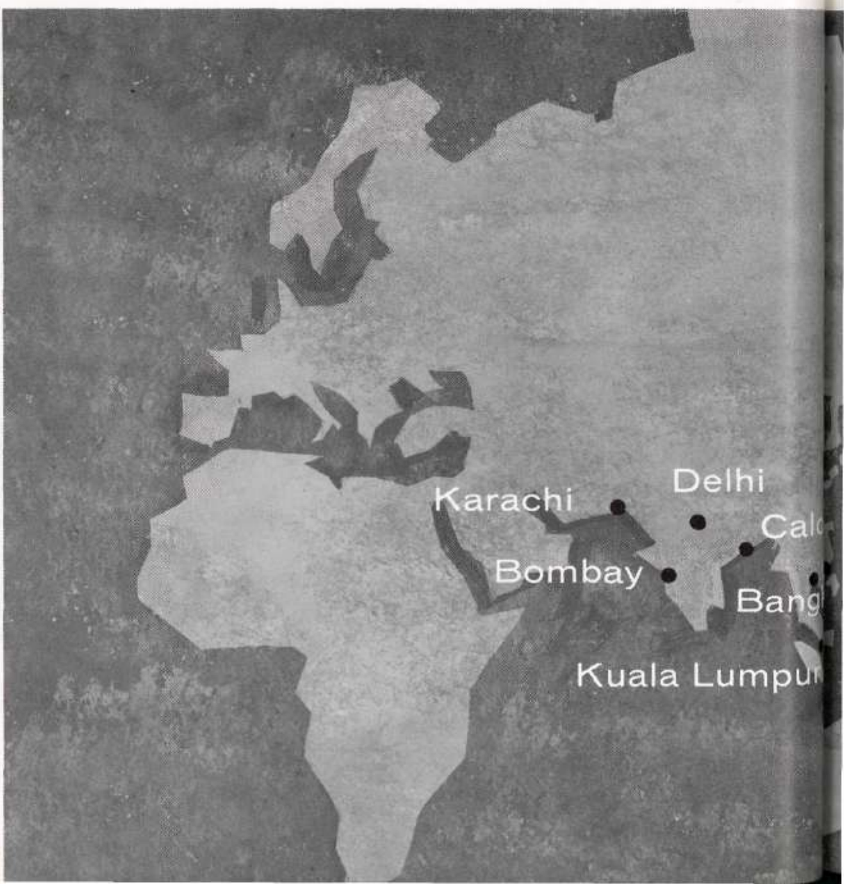
New Countries . . .

with New Problems

I HAVE recently returned from a trip to India and the Far East sponsored by the Detroit Board of Commerce. It was a Trade and Good Will Tour and covered in a business way the larger cities of India and of several other Far Eastern countries including Thailand, Malaya, Hongkong and Japan. Since the trip had the encouragement and cooperation of our State Department, in each city we had a meet-

MAP SHOWS CITIES VISITED BY GEORGE



A visit to India, Pakistan, Thailand and other countries of the Far East

by George D. Bailey

ing with the ranking State Department officials and often a reception by one of them, as well as meetings and dinners with business groups and government officials of the country. We spent much more time seeing and visiting with people than looking at tourist sights and scenery, though in almost every country we had a chance to drive away from the cities and see how the rural people lived.

Many impressions and a good deal of reliable information came

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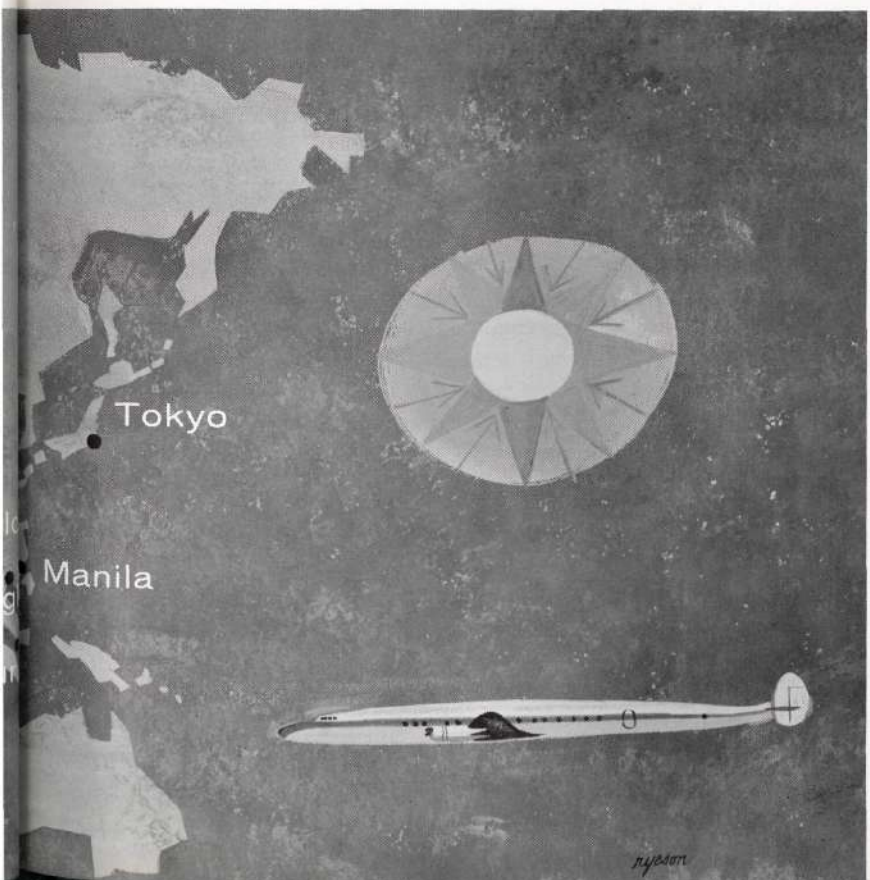

out of the visits and some of those may be interesting to the people in our organization.

Leaving out Hongkong, Agra, and Banaras which were purely sightseeing stops and of course leaving out Honolulu which was a two-day recuperation visit, the trip covered major cities in countries as follows: Karachi in Pakistan; Bombay, Delhi, and Calcutta in India; Bangkok in Thailand, Kuala Lumpur in Malaya, Manila in the Philippines, and Tokyo in Japan.

A fresh start after the war

In one major respect all these countries have one characteristic in common. They are essentially new countries, not from the standpoint of people or national backgrounds but from the standpoint of their governmental and economic base, in some cases even social aspects. Each of them got a fresh start after the war or as a result of independence following the war. Even Japan had its political, social, and economic aspects changed as a result of the war and the subsequent American occupation, and came out from under occupation with a fresh start. All these countries are trying out democracy more or less after the Anglo-Saxon model and all are experiencing some stresses and strains in the working of that political system.

In Pakistan, for instance, the difficulties of obtaining a disciplined and effective government became too great and the Army took over. Fortunately President Mohammed Ayab Khan, the strong man with dictatorial powers which he has voluntarily limited, is sincere in working toward a new democratic constitution. As I understand it, however, this will be more what is known as a guided democracy—with rather strong but arbitrary powers at the top but with a very large area of democratic self-government and increasing democratic responsibility over the years. The constitution is not yet finally developed but is being watched carefully all over the world as perhaps indicating a way for a new people not yet ready for complete self-government to move forward into a complete democracy.

Pakistan . . . product of partition

Pakistan, of course, became a new country in 1947 at the time of the partition of India when the British gave up control. Religious feeling ran very high and Pakistan resulted from the attempt to separate some 84,000,000 Moslems from 350,000,000 Hindus and related groups. Partition inescapably caused a great deal of dislocation, shifting of population, and much bitterness, with loss of life running into millions on both sides. Pakistan literally had to start from nothing while India got most of the old civil servants who had been trained in the service of the British. To add to its troubles, over half of the people live under very crowded conditions in East Pakistan, which is over 1,000 miles removed from West Pakistan where the capital will be, and where crowded conditions are not so apparent.

The partition, so-called, had a curious effect on accounting. In Karachi the chief practicing accountants were Indian and these left Karachi for India. That vacuum was filled to a certain extent by Moslems who had been in India and left for Pakistan. The leading accountant in Karachi had to give up all his practice in Bombay and start over again in Karachi after 1947, but he found a vacuum in Karachi and now has a very sizable staff and a large practice.

Democracy meets a test in India

India is an older country than Pakistan and has not had the same difficulty in building a functioning democratic government, but Nehru's Congress Party has over 80% of the legislative representation and about the same amount in popular vote. With such a majority the administration has no effective opposition and is therefore able to put into effect an austerity program to help bridge the early years.

Both India and Pakistan have a very low standard of living, and it is generally recognized as essential to raise this standard sufficiently from year to year or from Five-Year Plan to Five-Year Plan so the great majority of people can see improvement in their living. It is also agreed that there must be continuous and substantial progress if the people are to be satisfied with a democratic government. More than one of our ambassadors pointed out that India could be a test of whether it is possible to increase standards of living from one generation to another by democratic means or whether the examples of China and Russia, let us say, might not discredit the democratic process as being too slow and too little. Apparently people of one generation are willing to sacrifice a great deal in the way of freedom if only they can be sure their children will have the benefits of such sacrifice. This is the danger in too little progress.

To get an increase in the standard of living, it is believed that there must be large-scale basic improvements such as irrigation, power, roads and transportation, communication, basic manufacturing, etc. Tax rates are very high but the countries are so poor that such developments can not take place fast enough without outside help, and outside help and outside capital are not easy to get. There are Five-Year Plans in both Pakistan and India to try to provide the greatest possible use of local facilities for basic development and for minimum dependence upon others. Hence the emphasis on export, the control of luxury manufacture and imports, and the great need for more manufacturing of the tools and materials needed for these basic improvements. This also explains the decision of the government to take over responsibility for additions in some larger lines such as steel mills and, of course, dams and power. This suggests a bias to socialism on the part of Nehru and his administration.

The auto industry in India

The manufacture of motor cars, of which there was some by American and English companies, has been so restricted to Indian content and limited to trucks and very small cars that Ford and General Motors have withdrawn and Chrysler operates only with respect to trucks and on a license basis, in effect exporting to India only know-how. India does badly need new productive plants in many products and many areas, but at the same time seems to be determined that these plants will be locally controlled. However the general attitude of the people in our group and of others with whom we talked is that it is probably just as well for foreign business to come into the country in partnership with nationals rather than on a sole ownership or dominant basis.

Tax rates in all the new countries are very high but no more serious than some of the older countries. Generally speaking, in India taxes may be said to follow somewhat our own pattern with a substantial corporate tax rate approximating 50% with a tax on undistributed income, a high tax on dividends in the hands of the recipient, and with individual tax rates mounting up quickly and the high rate starting at a much lower figure. However, the average income is so low that the income tax touches only a relatively small percentage of the people; and I was told that bookkeeping is so primitive that the income tax also touches only a small percentage of commercial and business enterprises.

In addition India has two unusual taxes. One is an expenditures tax in which the government assesses a graduated tax on individuals based upon the amount of expenditures over a fixed minimum. The other is a so-called wealth tax which is graduated up from 1% and paid annually on the basis of a man's total worth above a minimum exemption. These last two are not working out very well, I was told, and the Indian Parliament was discussing them while we were there.

Businessmen talk about high taxes but seem to recognize them as necessary in the present state of affairs in India. On the other hand, there are provisos for special concessions with respect to distribution of earnings and to foreign capital. It is necessary and advisable to make individual agreements with the government for foreign capital, especially on the ability to withdraw capital and earnings and on the participation of Indian nationals; as a matter of fact permission must be obtained to come in at all because of the concentration toward the manufacture of articles that are most needed right now.

Reciprocal tax arrangements are being developed with other countries but basically foreign income earned in India appears to have the choice of a fairly high rate or of putting the entire income from India subject to the Indian rate as if it were the total income of the individual or corporation. However, even with the high tax rates, business seems to be profitable enough to permit Indian businessmen to constantly invest in new projects. As a result there are a number of separate groups of business men who seem to be, one way or another, in almost every new enterprise of any size.

Foreign investors should be careful

The businessmen in our group were very much intrigued with the very great need of India for foreign participation and with the opportunity for good profits; but it was apparent that investment should be made only after careful discussion with the government and the selection of proper native partners. I was struck by the fact that the chartered accountants of India have been so close to the development and enforcement of tax laws and government regulations that foreign investors might be well advised to consult a reputable accountant as almost the first step in any investment plan for India.

I have gone into some detail with respect to India because it is typical of the new countries. Its great need for immediately raising the standard of living and its great shortage of foreign capital merely accentuate the problems.

In Malaya and Thailand there is no shortage of foreign exchange and while there is need for capital to help expand industries already functioning for many projects, the money seems to be available through channels developed through the World Bank or lending institutions sponsored by associated governments or from private investors. Individual American companies are going into these two countries in oil and mining and undoubtedly American capital for the local manufacture of some consumer goods will occur.

Both of these countries seem well established. Thailand is the one exception in this whole area, in that it is not a new country; but it is caught up in the same economic and capital requirements as the others. It still has not worked out its democratic form of government. However, taxes on business in these two counries are as high as in India and Pakistan.

The Philippines, of course, are in effect a new country. Like many others it got its complete independence so quickly after the war that the people were not ready for it and the stresses and strains of the

George D. Bailey
Advisory Partner

Some of Mr. Bailey's recent activities include chairmanship of a new AICPA committee on Professional statistics; chairmanship of a special United Community Services Committee in Detroit on the study of services to the blind; and the role of presiding officer at the March 21 meeting of the Economics Club of Detroit, when he introduced speaker J. S. Seidman, president of AICPA.

Denver says Thanks!

. . . to the many people who temporarily transferred to Denver to help out over the tax season. These include Donald Wiese of the Executive Office and Charles Bate, John Gale, George English, Jim Loebbecke, and Bernard Tesoriere of the San Francisco Office.

democratic form of government are showing up. Many laws have been passed with respect to foreigners doing business in the Philippines, foreign accountants have been practically driven out, and at the moment new foreign capital is not being encouraged though there are, of course, hundreds of American and British firms that were in the Philippines before the war and came back immediately thereafter.

In Japan the growth of the economy has been so phenomenal that foreign capital is not really needed and foreign know-how is not essential as it is in many other new countries. Foreign companies are not being excluded but every one must make its agreement with the government and must have substantial ownership by Japanese nationals. Even well established companies that were on a 50-50 basis are being pressured to increase the percentage to 60 or 66% Japanese. We were impressed, however, by the evidences of maturity in the Japanese businessmen, especially in their attempt to stamp out the pirating of American products on a cheap basis and to raise the quality of the goods exported to the American market. In both of these efforts they are succeeding. No longer is the stamp "Made in Japan" a symbol of poor quality. Instead in many products the quality is as high as anywhere in the world.

Two new positions announced

Joseph R. Levee, Supervisor-Tax in New York, is the new International Assistant-Tax in the Executive Office. He has been with us since 1955, specializing in tax work. Mr. Levee has information on foreign tax laws in countries where our clients operate. He should be used for consultation with all offices and with clients on their foreign tax problems.

James I. Johnston of the Washington Office has been appointed Administrative Assistant to the Executive Partner-Audit. Mr. Johnston's efforts will be directed primarily toward technical matters affecting both our United States and international practice. He will be concerned with audit post reviews, technical liaison with Associated Firms, and preparing an International Newsletter.